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2010 DEC 30 P 1:18

December 30, 2010

AZ CORP COMMISSION
DOCKET CONTROL

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: FINAL UPDATED CALCULATION OF FORWARD, HISTORICAL, AND TRANSITION COMPONENTS OF PSA FOR 2011 (DOCKET NO. E-01345A-05-0816, E-01345A-05-0826, E-01345A-05-0827)

Decision No. 69663 requires Arizona Public Service Company ("APS") to submit on or before September 30 a projection of the PSA Component calculations that will be effective on February 1, 2010. Decision No. 69663 requires APS to submit an annual update to the PSA on or before December 31, 2010.

Enclosed are the updated Forward, Historical, and Transition Components of the PSA. These Components will automatically go into effect on February 1, 2011 subject to the review of Commission Staff and approval by the Arizona Corporation Commission. Based on the estimated balance as of December 29, 2010, the calculated PSA Adjustor is \$(0.005658)/kWh. The PSA Rate will consist of a Forward Component rate of \$(0.003016)/kWh, a Historical Component rate of \$(0.002642)/kWh, and the Transition Component which will stay at \$0.000000/kWh. APS is projected to credit approximately \$83.1 million from the Forward Component rate and approximately \$72.8 million from the Historical Component rate.

The \$(0.005658) PSA Adjustor will reduce average monthly residential bills by \$1.37 based on monthly energy consumption of 1,177 kWh. Monthly bills for residential customers on E-12 will decrease by \$0.88 based on a monthly consumption of 763 kWh.

If you should have any questions regarding the information contained herein, please call Mr. David Rumolo at 602-250-3933.

Sincerely,

Susan Casady

SC/kc
Attachment

cc: Barbara Keene (w/ attachments)

Arizona Corporation Commission
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ARIZONA PUBLIC SERVICE COMPANY

Schedule 1

Power Supply Adjustment (PSA) Rate Calculation Effective February 1, 2011
(\$/kWh)

Line No.	PSA Rate Calculation	Current		Proposed		Increase/(Decrease)	
		January 1, 2010	February 1, 2011 ¹	January 1, 2010	February 1, 2011 ¹	\$/kWh	%
1	Forward Component Rate - FC (Schedule 2, L9)	\$ (0.001816)	\$ (0.003016)	\$ (0.001816)	\$ (0.003016)	\$(0.001200)	-66%
2	Historical Component Rate - HC (Schedule 4, L5) ²	\$ (0.002674)	\$ (0.002642)	\$ (0.002674)	\$ (0.002642)	\$ 0.000032	1%
3	PSA Transition Component Rate (Schedule 6, L3) ³	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
4	PSA Rate (L1+ L2 + L3)	\$ (0.004490)	\$ (0.005658)	\$ (0.004490)	\$ (0.005658)	\$(0.001168)	-26%
5	Base Fuel Rate	\$ 0.037571	\$ 0.037571	\$ 0.037571	\$ 0.037571	\$ -	N/A
6	Total Fuel Recovery (L4 + L5)⁴	\$ 0.033081	\$ 0.031913	\$ 0.033081	\$ 0.031913	\$(0.001168)	-4%

Notes:

¹ Proposed levels of the PSA rate components are provided in the September 30 filing and updated in the December 31 filing of each year.

² A Historical Component is a true up related to respective prior period PSA activity.

³ Provides for Mid-Period Corrections when necessary.

⁴ The Total Fuel Recovery for the PSA year beginning January 1, 2010 includes the impact of the margins from the sale of excess emission allowances not recorded in fuel.

ARIZONA PUBLIC SERVICE COMPANY

Schedule 2

PSA Forward Component Rate Calculation Effective February 1, 2011

(\$ in thousands; Forward Component Rate in \$/kWh)

Line No.	PSA Forward Component Rate - Calculation	Current January 1, 2010	Proposed February 1, 2011 ¹	Increase/(Decrease) \$ Values %
1	Projected Fuel and Purchased Power Costs	\$ 1,083,459	\$ 1,006,577	\$ (76,882) -7%
2	Projected Off-System Sales Revenue	(55,591)	(31,286)	24,305 -44%
3	PSA Adjustments to Fuel and Purchased Power Costs ²	(21,629)	(14,066)	7,562 35%
4	Net Fuel and Purchased Power Cost (L1 through L3)	\$ 1,006,239	\$ 961,225	\$ (45,014) -4%
5	Projected Net Margins on the Sale of Emission Allowances	-	-	N/A N/A
6	Projected Billed Native Load Sales, excluding E-3, E-4, E-36 (MWhs) ³	28,334,369	28,012,931	(321,438) -1%
7	Projected Average Net Fuel Cost \$/kWh (L4 / L6)	\$ 0.035513	\$ 0.034314	\$ (0.001200) -3%
8	Projected Average Margin on Emission Allowances \$/kWh (L5 / L6)	\$ -	\$ -	N/A N/A
9	Total Projected Average PSA Cost \$/kWh (L7+L8)	\$ 0.035513	\$ 0.034314	\$ (0.001200) -3%
10	Authorized Base Cost of Fuel and Purchased Power Rate \$/kWh ⁴	\$ 0.037571	\$ 0.037571	N/A N/A
11	Authorized Base Net Margins on the Sale of Emission Allowances Rate \$/kWh ⁴	\$ (0.000242)	\$ (0.000242)	N/A N/A
12	Total Authorized Base Cost \$/kWh	\$ 0.037329	\$ 0.037329	N/A N/A
13	Forward Component Rate \$/kWh (L9 - L12)	\$ (0.001816)	\$ (0.003016)	\$ (0.001200) -66%

Notes:

¹ Proposed levels of the PSA rate components are provided in the September 30 filing and updated in the December 31 filing of each year.

² Includes costs associated with E-36 and other direct assignment customers, ISFSI, and mark-to-market accounting adjustments.

³ The proposed Billed Native Load Sales of 28,012,931 MWhs for the Current Rate represent forecast sales for 2011 as of November 30th, 2010. They exclude ED 3 and City of Williams wholesale contracts that are excluded from the proposed sales and fuel costs.

⁴ Base Cost of Fuel and Purchased Power established in the Commission approved settlement agreement.

ARIZONA PUBLIC SERVICE COMPANY

Schedule 4

PSA Historical Component Rate Calculation Effective February 1, 2011
(\$ in thousands; Historical Component Rate in \$/kWh)

Line No.	PSA Historical Component Rate Calculation	Current		Proposed		Increase/(Decrease)	
		January 1, 2010	February 1, 2011 ¹	January 1, 2010	February 1, 2011 ¹	\$ Values	%
1	Forward Component Tracking Account Balance	\$ (65,639)	(66,871)	\$ (65,639)	(66,871)	\$ (1,232)	-2%
2	Historical Component Tracking Account Balance	(13,730)	(5,908)	(13,730)	(5,908)	7,822	57%
3	Total Historical Amount to be (Refunded)/Collected Balance (L1+L2)	\$ (79,369)	(72,779)	\$ (79,369)	(72,779)	\$ 6,590	8%
4	Projected Billed Retail Energy Sales without E-3, E-4 and E-36 (MWh) ²	29,676,884	27,547,880	29,676,884	27,547,880	(2,129,004)	-7%
5	Applicable Historical Component Rate [L3 / L4]	\$ (0.002674)	(0.002642)	\$ (0.002674)	(0.002642)	\$ 0.000032	1%

Notes:

¹ Proposed levels of the PSA rate components are provided in the September 30 filing and updated in the December 31 filing of each year.

² The Current Rate Projected Billed Retail Energy Sales are for January 2010 through January 2011. The Proposed Rate Projected Billed Retail Energy Sales are for February 2011 through January 2012.